Economic Outlook

Thai Economic Performance in Q3 and Outlook for 2010 and 2011

Macroeconomic Strategy and Planning Office

Press Release 9.30 a.m. Nov. 22, 2010

Economic Projection Year 2010 and 2011

(% YOY)	2009	2010		Projection	
		H1	Q3	2010	2011
GDP (at 1988 price)	-2.3	10.7	6.7	7.9	3.5 - 4.5
Total Investment (at 1988 price)	-9.2	11.7	8.0	9.7	8.0
Private	-13.1	15.8	14.5	13.9	9.8
Public	2.7	0.3	-5.2	-1.3	2.5
Total Consumption (at 1988 price)	0.1	5.9	4.5	5.0	4.1
Private	-1.1	5.2	5.0	4.9	4.3
Public	7.5	9.7	2.0	5.5	2.7
Export of Goods,	-13.9	37.0	22.2	25.1	11.7
Volume	-13.6	22.6	13.1	16.4	6.2
Import of Goods	-25.2	53.4	30.7	33.5	13.4
Volume	-23.1	37.5	24.9	25.5	7.9
Current Account to GDP (%)	8.3	4.6	2.6	4.3	3.3
Inflation	-0.9	3.5	3.3	3.2	2.5 - 3.5
Unemployment rate	1.5	1.2	0.9	1.1	1.2 - 1.3

- Thai Economy in the third quarter of 2010 grew by 6.7 percent, thus the first 9 months recorded a solid growth of 9.3 percent. Such expansion was mainly supported by a strong recovery in the global economy as well as investor confidence. In addition, farm income rose in accordance with higher prices of major agriculture products, while unemployment rate remains low.
- After seasonal adjustment, the Thai economy contracted from the prior quarter by 0.2 percent, the second-consecutive-quarter contraction.
- The economy in 2010 is expected to grow by 7.9 percent, attributed by the recovery of the world economy and domestic demand. Private investment and consumption are expected to expand by 13.9 and 4.9 percent respectively, while export value in US dollar term is projected to rise by 25.1 percent.
- The economic growth for 2011 is expected to be in the range of 3.5-4.5 percent, decelerated from the forecasted 7.9 percent growth in 2010 This is due to a global economic slowdown and the appreciation of Thai baht. Regarding the economic outlook, exports are projected to grow by 11.7 percent while private consumption and private investment are forecasted to expand by 4.3 and 9.8 percent respectively. Other key economic indicators are forecasted as follow: (i) headline inflation between 2.5-3.5 percent; (ii) unemployment rate in the range of 1.2-1.3 percent; and (iii) current account surplus of 3.3 percent of GDP.
- The economic management for 2011 should emphasize the following issues: (i) assist those who are affected by the deluge in the late 2010 by implementing the farm income compensation scheme and rebuilding public infrastructure. In addition, the water resource management plan for both agriculture and consumption should be prepared in order to prevent the flood and drought in the future; (ii) manage and tackle the problem of rising commodities price which is caused by the flood, and a higher cost of production; (iii) encourage the export sector to consistently use financial instruments to manage risk arising from the exchange rate fluctuation. It is also recommended that financial institutions should create varieties of those instruments of which are easy to be used and have low operating costs; (iv) urgently help those labors who are affected by the flood and solving the problem of labor shortage in the industrial sector in order to support an incoming expansion in private investment and foreign direct investment; and (v) create harmony and solidarity among Thai people through the implementation of reconciliation plan as well as restoring Thai images and confidences of foreign tourists and investors.

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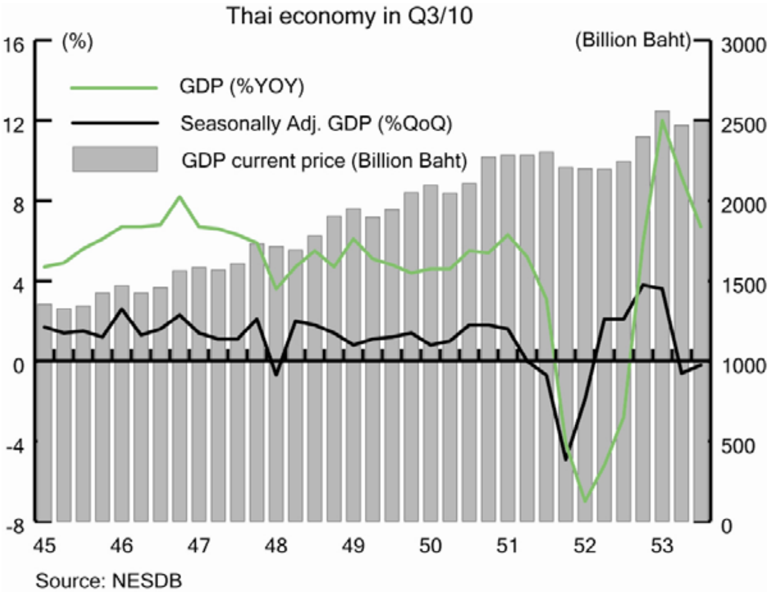
Thai Economic Performance in Q3/2010 and outlook for 2010 and 2011

In the third quarter of 2010, Thai economy grew by 6.7 percent. Such expansion was mainly supported by a strong recovery in global economy as well as investor confidence. These recoveries led to an expansion of exports, investment and private consumption. However, the seasonally adjusted GDP contracted by 0.2 compared to the previous quarter while the GDP in the first 9 months recorded a solid growth of 9.3 percent.



Positive signs in Q3/2010

(1) **Exports value in terms of US dollar in the third quarter of 2010 recorded its historic high** of 49,721 million US dollars or expanded by 22.2 percent from the same period of last year. The key drivers included a 60.1 percent growth of vehicles, parts and accessories, 17.0 percent growth of integrated circuits, 38.2 percent growth of air conditioning machine, and a 93.9 percent growth of rubber. Most of major exported markets included US, EU (15) and Japan continued to expand whereas export to Australia recorded a contraction.

(2) **Tourism sector showed a positive sign to normal situation.** The number of inbound tourists in this quarter stood at 3.69 millions, increased by 12.5 percent from the same period of last year. This significant improvement was due to increased number of tourists from China, Malaysia, and India. As a result, Hotels and restaurants expanded by 10.1, accelerating from 0.2 percent growth in the previous quarter.

(3) **Household consumption** rose by 5.0 percent, supported by a rise in farmer income due to higher prices of major agriculture products such as rubber, cassava and maize. In addition, an employment condition remained favorable, especially employment in non-agricultural sector that recorded an increase of 2.3 percent. Unemployment rate remain low at 0.9 percent. As a result, consumer confidence to spend has increased, as witness from the hike in consumer confidence index (stood at 80.5 increased from 75.9 in the previous quarter).

(4) **Private investment grew by 14.5 percent,** attributed by an acceleration of construction, particularly residential construction in Bangkok metropolis area. On the contrary, the investment in machinery and equipments decelerated. The business sentiment index (BSI) in this quarter stood at 50.4, slightly improved from 49.3 in the previous quarter.

Thai Economic Outlook for 2010

For the year 2010, Office of the National Economic and Social Development Board expected the economy to expand by 7.9 percent, an upward revision from the previous projection. The strong economic growth during the first 9 months was supported by a global economic recovery and a continual improvement of domestic demand. Although during the last quarter of 2010, Thailand had severely suffered from flood but its impact on real sector was limited. Moreover, the higher than previously forecasted growth of global economy and trade volume will be the key supporting factors for exports sector.

Thai Economic Outlook for 2011

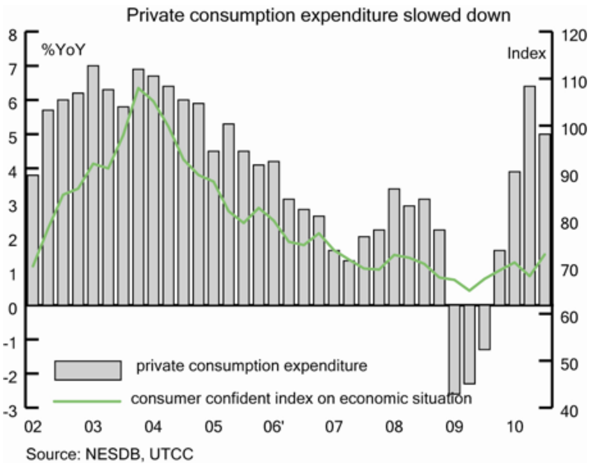
In the year 2011, Thai economy is expected to expand in the range of 3.5 – 4.5 percent, down from 7.9 percent in 2010 as a result of global economic slowdown. The upward trend of oil prices and Thai baht will affect costs of production as well as income from exports. Labor shortage in various industries will be a major obstacle in the manufacturing sector. Furthermore, flooding during the second half of 2010 will certainly have a drastic effect on agricultural sectors in the first quarter of 2011. Thus, headline inflation in 2011 is expected to be in a range of 2.5 – 3.5 percent. Household consumption is projected to grow by 4.3 percent while investment is estimated to expand by 8.0 percent. Export value in US dollar term is expected to grow by 11.7 percent with a current account surplus of 3.3 percent of GDP, down from a surplus of 4.3 percent of GDP in 2010.

1. Economic Performance in Q3/2010

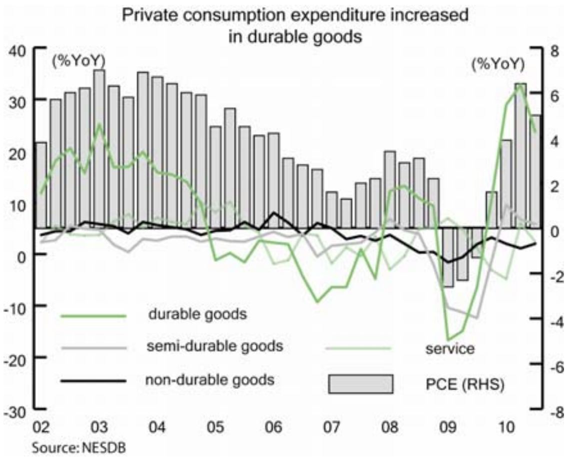
❐ Expenditure Side

Private consumption expenditure expanded by 5.0 percent as a result of low unemployment rate, increase in farm income as well as low interest rate.

Private consumption expenditure: expanded with a decelerated rate of 5.0 percent in the third quarter, down from 6.4 percent in the second quarter. This coincided with the decline in value added tax (VAT) and import value of consumer goods. In the third quarter of 2010, VAT and import value of consumer goods, at constant price, grew by 13.0 and 16.3 percent dropped from 20.1 and 34.9 percent in the second quarter. The key supporting factors included: (i) low unemployment rate; (ii) increase in farm income following an improvement in price of agricultural products and; (iii) low interest rate. Consumption on durable goods continued to expand at a decelerated rate of 23.7 percent after experienced a tremendous growth in the past quarter, particularly in automobiles, electrical appliances, and furniture. In addition, consumer confidence index on economic situation in this quarter rose to 72.6, improved significantly from 68.0 in the previous quarter due to increase in confidence in employment condition, income improvement and political stability.



Source: NESDB, UTCC



Source: NESDB

Private Consumption

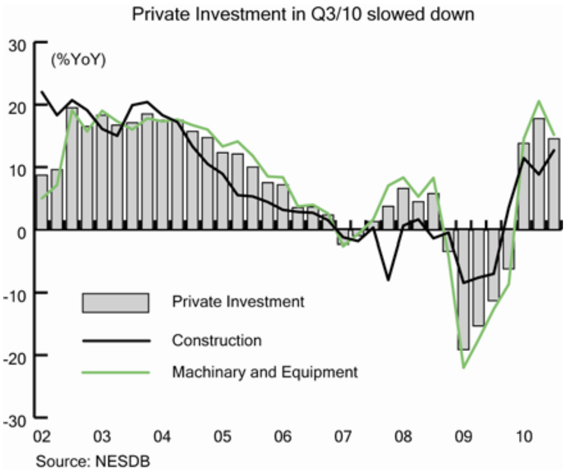
%YoY	2009					2010		
	Year	Q1	Q2	Q3	Q4	Q1	Q2	Q3
Private Consumption	**-1.1**	**-2.6**	**-2.3**	**-1.3**	**1.6**	**3.9**	**6.4**	**5.0**
Durable goods	-7.1	-16.7	-14.9	-6.4	10.7	28.9	32.8	23.7
Semi-durable goods	-8.8	-10.4	-11.3	-12.4	-1.3	9.5	6.7	5.8
Non-durable goods	0.7	-1.6	-0.6	1.9	3.2	2.0	1.1	2.0
- Food	0.6	-0.9	-1.2	2.9	1.8	0.7	1.1	0.6
- Non-food	0.7	-2.0	-0.3	1.2	4.1	3.1	1.2	3.1
Service	2.2	6.9	4.8	1.2	-3.1	-4.8	5.9	2.4

Source: NESDB

Private investment expanded at a slower pace, mainly due to decline in growth rate of equipment investment expansion.

Private Investment expanded by 14.5 percent, slowed down from 17.8 percent in the previous quarter. This was mainly caused by a slowdown in equipment investment, which grew by 15.2 percent. On the contrary, construction investment continued to rise by 12.7 percent. This coincided with private investment index that increased at a decelerated rate of 20.0 percent, compared to the expansion of 21.8 percent in the previous quarter. The import of capital goods increased at a slower pace by 27.1 percent. In addition, most of the expansion came from import of machinery particularly for the export-oriented industries such as electronics, electrical appliances, and automobiles sector. Furthermore, sale volume of commercial car in domestic market continued to expand by 39.5 percent owing to credit easing by commercial banks, increase in farm income, and strong consumer and investor confidence. Similarly, investment in construction continued to expand. This can be seen in the expansion of construction area permitted in municipal zone by 18.1 percent, specifically in Bangkok.

Business Sentiment Index (BSI) remained strong at 50.4, increased from 49.3 in the previous quarter. Nevertheless, there are potential risks for future investments namely the global economic uncertainty, increase in cost of production as well as government restriction on price adjustment. In addition, BSI in production cost remained low at 37.0 while BSI in services improved to 52.7. The expected BSI index for the next 3 months continued to improve to a level of 56.1, as domestic political unrest has been eased out.

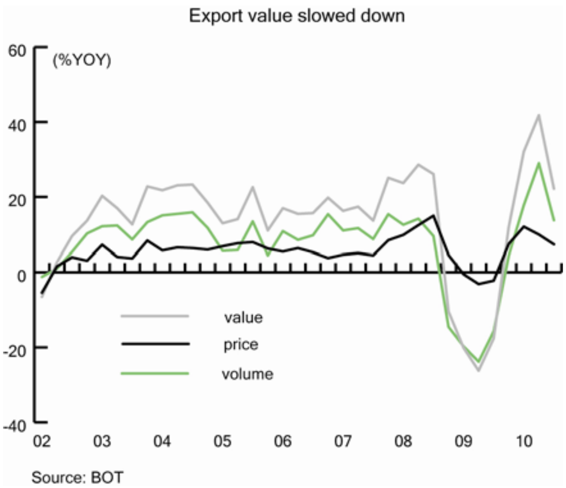


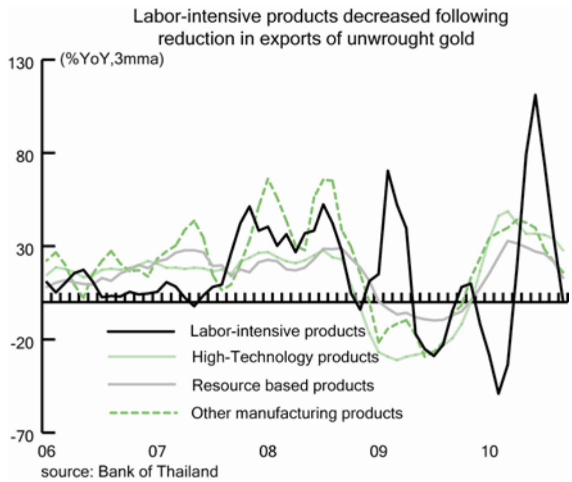
Exports: both value and volume increased. In the third quarter of 2010, an export value in US dollar term expanded and reached its historic high at 49.721 million US dollars. However, the export value grew at a slower pace with the rate of 22.2 percent, compared to the second quarter which increased by 41.8 percent. The export volume and price only expanded by 13.8 and 7.4 percent respectively. Excluding unwrought gold, the export value expanded by 24.8 percent. This deceleration in growth was the result a high base effect, a slowdown in global economy caused by the economic crisis of EU and an appreciation of Thai baht that tend to distress Thailand's competitiveness especially for resource-based industry. As witness in differential in growth rate of export value in Thai baht term and in US dollar term, the export value in Thai baht term rose by 13.7 percent.

Export value in terms of US dollar experienced an increase of 22.2 percent while export value in terms of Thai baht expanded only by 13.7 percent due to an appreciation in Thai baht.

Agricultural export value slowed down from the previous quarter. Agricultural export value expanded by 24.1 percent owing to sharp rise in export price, registered at 35.2 percent, whereas, export volume only grew by 8.4 percent. Similarly, manufacturing export volume and value grew at a slower rate of 17.0 and 21.9 percent respectively, compared to an increase of 35.0 and 42.9 percent in the second quarter. Meanwhile, price recorded a slightly increase of 4.2 percent. Major export products were computer and computer parts and electrical appliances, with an increase of export value at 2.0 and 24.3 percent respectively. The export value of high-technology products and resource-based products experienced the increase of 27.7 and 13.0 percent respectively. Nonetheless, the export of labor-intensive products sluggishly grew by 0.2 percent, compared to an expansion of 110.0 percent in the prior quarter, due to a deceleration in export of unwrought gold.

Export markets expanded in both major markets and other markets, particularly in ASEAN (9) of which export value increased by 27.5 percent, decelerating from a growth of 45.3 percent in the previous quarter. Similarly, export to China, US, Japan and EU (15) exhibited an expansion of 26.9, 25.4, 32.0 and 19.4 percent respectively. Regarding new markets, the exports to Hong Kong, Taiwan, India and South Korea grew by 21.7, 38.6, 24.7 and 12.6 percent respectively, whereas export to Australia contracted by 16.2 percent. This contraction was due to a decrease in export of unwrought gold.





Major Export Market

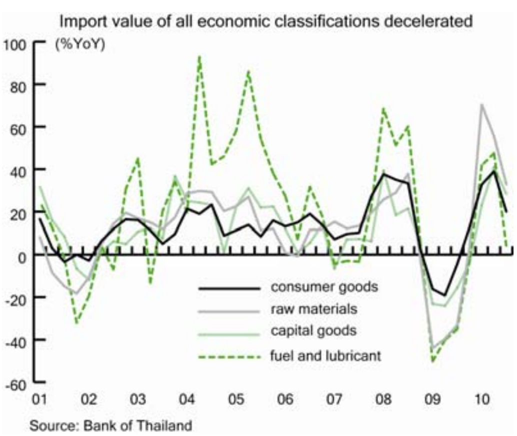
(%YOY)	2007	2008	2009					2010					
	Year	Year	Year	Q1	Q2	Q3	Q4	Q1	Q2	H1	Q3	9M	Share (%)
US	-0.2	4.4	-17.8	-27.1	-27.1	-19.2	4.5	22.8	26.4	24.7	25.4	24.9	11.4
Japan	10.6	10.9	-21.7	-26.2	-31.2	-24.9	-2.7	29.4	34.6	32.1	32.0	32.0	10.9
EU (15)	17.6	7.2	-24.5	-32.8	-33.1	-26.6	-1.8	21.7	24.1	22.9	19.4	21.7	9.8
ASEAN (9)	21.4	22.4	-19.1	-31.6	-33.1	-21.7	18.3	67.3	45.3	55.2	27.5	44.5	22.6
Hong Kong	21.3	15.5	-5.6	-14.2	-22.6	-3.6	23.8	22.7	58.2	39.5	21.7	32.8	6.3
Taiwan	-1.1	-18.8	-16.7	-42.5	-26.3	-13.1	27.3	69.6	36.1	50.7	38.6	46.1	1.7
South Korea	11.7	23.0	-23.2	-24.7	-18.7	-36.1	-7.5	42.8	41.7	42.2	12.6	31.1	1.8
Middle East	30.8	26.9	-7.8	6.7	-17.7	-19.3	4.4	9.4	22.2	15.5	3.9	11.3	4.9
India	47.1	25.6	-3.6	-17.1	-9.3	-7.7	20.4	92.4	25.2	54.4	24.7	42.6	2.3
China	26.6	9.1	-0.4	-28.2	-9.3	-6.2	54.1	70.0	30.7	47.8	26.9	39.8	10.8
Australia	36.5	34.4	7.5	15.4	-27.7	7.1	39.4	3.5	97.6	41.5	-16.2	17.3	4.3

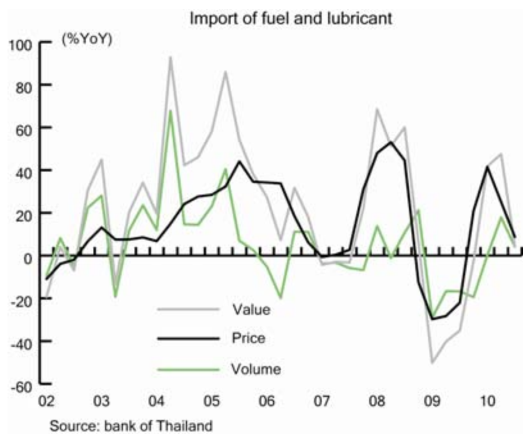
Source: Bank of Thiland

Imports: value, volume and price slowed down. Import value in terms of US dollars expanded by 30.7 percent, lower than 44.8 percent growth in the previous quarter. Import price rose by 6.0 percent mainly due to an increase in oil price. In the third quarter, import volume expanded at a decelerated rate of 23.0 percent, down from 32.6 percent in the previous quarter. In addition, all import categories experienced a downturn as a result of high base effect from the second half of 2009.

Import value in terms of US dollars expanded by 30.7 percent, slightly lower than 44.8 percent growth in the previous quarter. All import product categories (seasonally adjusted) slowed down.

The slowdown in import volume and value (seasonally adjusted) was recorded in all commodities. **Capital goods increased at a decelerated rate both in volume and value**. Import value expanded by 27.9 percent, down from 23.6 and 41.2 percent in the last two quarters respectively. This was due to the deceleration in growth of domestic investment and capital utilization. Similarly, **raw material and semi-finished goods increased at a slower pace both in volume and value**. Import value grew by 31.9 percent, down from 71.5 and 55.9 percent in the first and the second quarter respectively, which was in line with the decelerated growth of export and production. Import goods that recorded an increase were parts and





electrical appliances, chemical products, and plastic products. **Import of consumer goods in value, volume and price has slowed down,** in accordance with private consumption. Import value of consumer goods rose by 19.8 percent, down from 33.3 and 39.2 percent in last two quarters respectively. **Whereas fuel and lubricant increased in price but decreased in volume**, as a result of high base effect in import volume of oil. Import value expanded by 1.5 percent, down from 43.8 and 48.0 respectively in last two quarter. Import volume decreased by 6.3 percent while import price rose by 8.5 percent.

Term of trade expanded by 1.3 percent.

Term of trade improved from the same period of last year as export price in terms of US dollar increased at a faster pace than that of import price. The price of export rose by 7.4 percent, while the import price increased by 6.0 percent. Hence, term of trade in the third quarter of 2010 expanded by 1.3 percent.

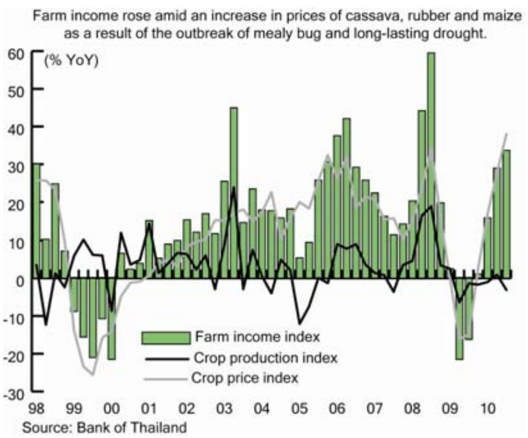
Trade balance registered a slow down on surplus from the previous quarter.

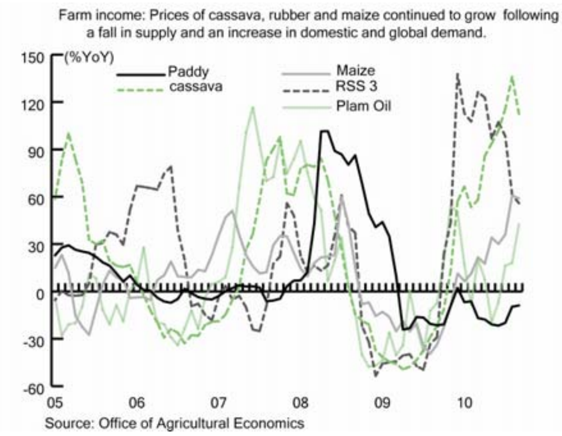
Trade balance registered a slow down on surplus. In third quarter of 2010, trade balance recorded a surplus of 3,303 million US dollars (or equivalent to 101,291 million baht) compared to a surplus of 4,645 million US dollars (or equivalent to 150,437 million baht) in the second quarter.

❒ Production Side

Agricultural sector contracted by3.3 percent after an expansion of 1.5 percent in the previous quarter. Crops production declined by 3.1 percent while crops price and farm income still accelerated at a faster pace.

Agricultural sector contracted by 3.3 percent after an expansion of 1.5 percent in the previous quarter. The crops production fell by 3.1 percent mainly due of the outbreak of mealy bug in cassava plantations and an unusually long drought during the first half of this year. This ultimately resulted in the production of cassava, maize, and palm oil to fall by 51.7, 26.9 and 11.8 percent respectively. Following a fall in supply and an increase in world demand for agricultural products, crops price expanded significantly by 38.0 percent owing to the dramatic increase in prices of cassava, rubber and maize by 121.6, 70.0 and 50.7 percent respectively. Nevertheless, domestic price of paddy declined by 13.1 percent consistent with the fall in price of rice in the world market. In addition, the lower price of paddy was also resulted from an earlier release of stocks by rice mills. Livestock prices continued to increase by 7.4 percent from the previous quarter following an increase in prices of swine and chicken as a result of limited supply in the market. The rising agricultural price has improved farm income by 33.7 percent in this quarter. In conclusion, agricultural sector in the last 9 months contracted by 1.4 percent.

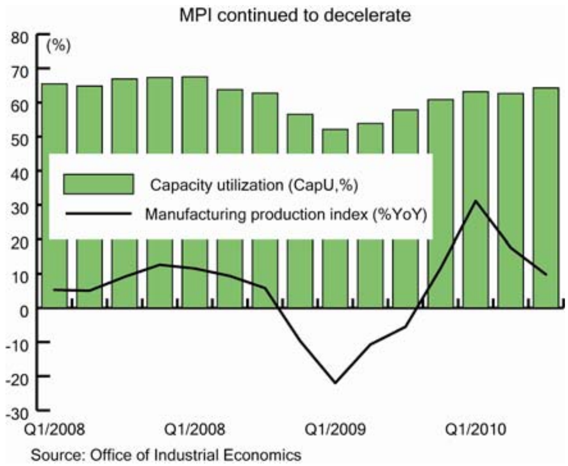




Manufacturing sector grew by 11.5 percent according to an expansion of domestic and foreign demand.

Manufacturing sector expanded by 11.5 percent, the forth-consecutive-quarter expansion. The supporting factors for this expansion included a continual growth in sale order, especially in major export industries. In addition, domestic demand remained strong following an increase in farm income. The main engines of growth for the third quarter were: (i) High technology sector including motor vehicles industry, office machinery industry and electrical appliance and electronic industry, which grew by 43.3, 37.1, 15.7 and 2.6 percent respectively;

and (ii) Labor intensive industries such as leather industry, wearing apparel and domestic appliance industries, which grew by 18.7, 16.0 and 23.2 percent respectively.



At the end of the third quarter, the capacity utilization was at 64.3 percent, improving from 57.8 percent in the same period of last year. Major industries that employed capacity utilization above 80 percent were plastic product industry (103.9 percent), rubber product industry (90.7 percent), electronic industry (85.0 percent), office machinery industry (82.6 percent) and motor vehicle industry (82.1 percent). Moreover, inventory index grew by 0.6 percent, compared to the previous quarter. This indicated that the stock build-up will remain through the next quarter. For the first 9 months of this year, manufacturing sector expanded by 17.2 percent.

Capacity utilization was at 64.3 percent, rose from 57.8 percent in the previous quarter.

Construction Sector grew by 5.2 percent, slowed down from 8.0 percent in the previous quarter. This was mainly a result of a sharp slowdown in public construction, which expanded by 0.4 percent compare to a growth of 5.9 percent in the previous quarter. Such slowdown was in line with reduction in sale volume of cement and steel products. However, private construction grew by 12.7 percent, accelerated from 8.8 percent in the previous quarter. Moreover, we also witnessed an accelerating growth of 18.1 percent in the total permitted area for construction. In particular, construction area for residential and industrial considerably expanded by 26.5 and 40.0 percent, respectively. This indicates a pick up in private sectors' confidence in the prospect of the economy. For the first 9 months of 2010, construction sector grew by 6.9 percent.

Construction sector expanded by 5.2 percent down from 8.0 percent growth in the last quarter, as a result of a sharp slow down in public construction.

The prices of construction material in the third quarter grew at a slower pace of 1.1 percent, due to declined in most of the price of construction materials especially cement and concrete which declined by 11.6 and 1.3 percent correspondingly. Furthermore, price of steel experienced a decelerating growth of 4.4 percent. However, price of wood product rose by 4.0 percent compared to the same period of last year.

Real estate sector expanded by 6.5 percent, considerably up from 2.4 percent in the previous quarter. Such expansion was mainly driven by continual increase in demand for dwelling, which reflected in an expansion of housing loan and total cumulative value of land and property transaction fees as compared to the same period of last year.

Real estate sector accelerated from last quarter as a result of the continual increase of demand for dwelling.

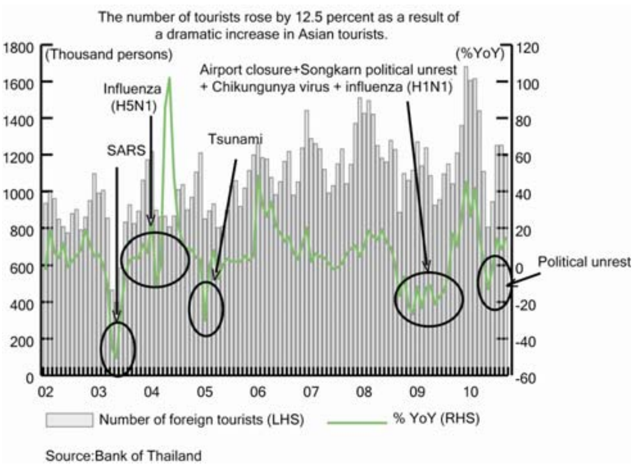
Furthermore, the **real estate price index** for both single house and townhouse increased by 2.2 and 1.1 percent respectively. These were attributed by the continually soaring prices of construction material and land. In particular, the price of land grew by 2.1 percent accelerating from 1.7 percent growth in the previous quarter. For the past 9 months, real estate sector expanded by 5.2 percent.

Hotels and Restaurants expanded by 10.1 percent compared to the same period of last year. The number of inbound tourists in this quarter stood at 3.7 million persons, accelerated from the previous quarter by 12.5 percent. This significant improvement was due to increased number of tourists from Asian countries particularly China, Malaysia, and India by 78.7, 26.9 and 28.1 percent respectively. As a result, average occupancy rate registered at 48.4 percent, up from 47.2 percent in the same period of last year.

Hotels and Restaurants expanded by 10.1 percent. The number of inbound tourists in this quarter stood at 3.7 million persons, accelerated by 12.5 percent due to increased number of tourists from Asia.

Tourism sectors have shown signs of strong recovery from political unrest in the previous quarter. Promising signs of recovery in this quarter are as follows: (i) an increase in number of inbound tourists by 12.5 percent, accelerated from a contraction of 3.6 percent in the previous quarter; (ii) an average occupancy rate of 48.4 percent, accelerated from 39.3 percent in the previous quarter; and (iii) an increase in number of flights and passengers of Low-cost carriers (LCCs) by 13.9 and 26.7 percent respectively compared to the same period of last year. The number of tourists in the first three quarters stood at 11.2 million persons, accelerated from the same period last year by 13.3 percent.

Nevertheless, the number of tourists from Japan, United Kingdom, and United State in this quarter declined noticeably by 12.6, 9.9 and 8.1 percent respectively, as a result of an ongoing impact from economic crisis in Europe and United State in conjunction with impact from Shanghai World Expo 2010 (1 May – 31 October 2010). In conclusion, hotels and restaurants sector in the last nine months expanded by 8.6 percent.



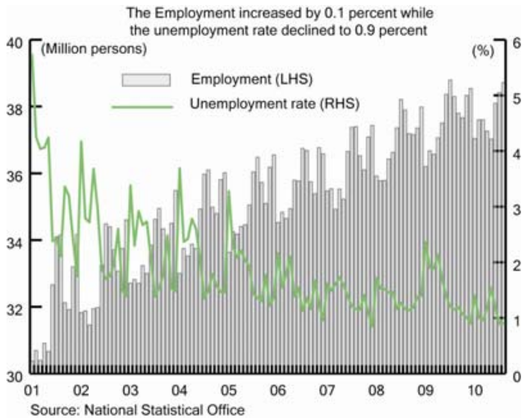
Employment in the third quarter stood at 38.57 million persons[1], increased by 0.1 percent compared to the same period of last year. Employment in non-agricultural sector grew by 2.3 percent particularly in public administration sector, wholesale and retail sector and construction sector which expanded by 18.4, 4.8 and 4.0 percent respectively. Similarly, employment in agricultural sector contracted by 3.2 percent, improved from 6.6 percent contraction in the previous quarter.

The Employment increased by 0.1 percent while the unemployment rate declined to 0.9 percent. Tension in labor market situation persisted since the beginning of the year.

Number of unemployment in this quarter stood at 349,000 persons, declined by 112,000 persons compared to the same period of last year (or down by 24.2 percent). Additionally, the unemployment rate stood at 0.9 percent, as a result, the number of registered persons claimed for unemployment compensation substantially dropped by 16.8 percent.

In addition, tension in labor market situation continued to linger as the ratio of vacancies to registered applicants remained constant throughout 2010 at 1.0, 0.7 and 1.0 in Q1, Q2 and Q3 respectively. Skill labor shortage can still be observed in numerous industries such as automobile and electronics.

[1] Average from the first 2 months of the quarter.



Employed Persons by Industry

%YoY	2009							2010				
	Year	H1	H2	Q1	Q2	Q3	Q4	Q1	Q2	Q3*	July	Aug
Employment	1.9	2.4	1.5	1.9	2.3	1.4	1.8	2.6	-0.5	0.1	-1.0	1.1
- Agricultural	-0.1	1.7	-1.5	0.8	2.4	-0.8	-2.3	2.8	-6.6	-3.2	-8.4	2.4
- Non-Agricultural	3.1	2.3	4.0	2.5	2.2	3.1	4.9	2.5	3.1	2.3	4.5	0.2
Industry	-1.5	-3.5	0.7	-3.7	-4.6	1.3	0.2	-1.1	0.8	-2.5	0.5	-5.3
Construction	4.0	4.5	3.5	3.4	5.2	1.6	5.3	-1.2	9.3	4.0	2.3	5.8
Hotel and Restaurant	8.8	7.5	10.1	7.7	7.3	8.7	11.4	10.3	1.7	-0.4	4.1	-4.6
Wholesale and Retail	5.1	5.4	4.8	5.5	5.3	4.2	5.4	2.9	4.9	4.8	6.1	3.6
Unemployment (Hundred thousand person)	5.7	7.3	4.2	7.8	6.7	4.6	3.8	4.3	5.0	3.5	3.5	3.5
Unemployment rate	1.5	1.9	1.1	2.0	1.8	1.2	1.0	1.1	1.3	0.9	0.9	0.9

Remark: *Average first 2 month
Source: NSO.

❒ Fiscal condition:

In the fourth quarter of fiscal year 2010 (July - September 2010), government revenue was 448,041.9 million baht, exceeded the target and previous year collection by 25.8 and 15.5 percent respectively. For fiscal year 2010 (October 2009 – September 2010), revenue collection was 1,678,911 million baht, exceeded the target by 328,912 million baht or 24.4 percent and higher than last year's revenue collection by 19 percent as a result of strong recovery of Thai economy.

Government revenue collection exceeded the target, due to economic expansion. Budget disbursement was slightly higher than target.

On expenditure side, the total budget disbursement was 419,153 million baht, equivalent to 24.7 percent of the annual budget, and slightly lower than the target of 26.0 percent. The current budget has been disbursed by 25.4 percent of total current budget while the capital budget has been disbursed by 19.8 percent of total capital budget. However, the total budget disbursement for fiscal year 2010 was 1,627,846.3 million baht, equivalent to 95.8 percent of the annual budget, higher than a target of 94.0 percent.

Regarding the Stimulus Package 2 (SP2), the disbursement of investment projects during the fourth quarter of fiscal year 2010, was 55,531.7 million baht, equivalent to 17.3 percent of total allocated budget (320,760.9 million baht). For fiscal year 2010, the total disbursement under SP2 was 219,515.5 million baht, or 68.4 percent of total allocated budget.

For fiscal year 2010, the total disbursement under SP2 was at 68.4 percent of total allocated budget.

Fiscal balance

Fiscal Year	2009			2010				
	Q3/52	Q4/52	12M	Q1/53	Q2/53	Q3/53	Q4/53	12M
Government Revenue	460,038.6	387,972.3	1,410,858.0	348,962.3	336,235.9	554,866.1	448,041.9	1,678,911.0
Compared with the target (%)	-9.6	-11.9	-13.7	24.1	26.7	24.1	25.8	24.4
Compared with prior year (%)	-7.8	-6.2	-8.7	25.9	17.7	20.6	15.5	19.0
Budget disbursement	424,057.0	481,181.9	1,790,865.0	396,783.7	432,449.6	379,459.5	419,153.5	1,627,846.3
Percent of annual budget[1] (%)	21.7	24.7	91.8	23.3	25.4	22.3	24.7	95.8
Higher/lower than the target (%)	-2.3	0.7	-2.2	3.3	2.4	-2.7	-1.3	1.8
SP2 Disbursement	-	14,871.6	14,871.6	20,152.0	70,766.9	73,086.0	55,531.7	219,515.5
Percent of total SP2 budget[2] (%)	-	4.3	4.3	5.8	20.2	20.9	15.9	62.7
Percent of total allocated budget[3] (%)	-	4.9	4.9	6.6	23.2	23.9	17.3	68.4

remark [1] Total annual budget 1,700,000 Million Baht
[2] Total SP2 budget 350,000 Million Baht
[3] Total allocate budget 320,760.9 Million Baht (As of August 2010)
Source: Fiscal Policy Office (FPO) and The Comptroller General's Department (CGD)

Fiscal balance in the fourth quarter of fiscal year 2010, the budget balance recorded a deficit of 15,900.9 million baht. Adding on, a surplus in non-budgetary balance of 82,211.5 million baht and the issuance of government bonds and treasury bills of 3,003.0 million baht, the government cash balance in the fourth quarter of fiscal year 2010 recorded a surplus of 69,313.5 million baht. For fiscal year 2010, the government registered cash deficit of 97,088.0 million baht. Furthermore, the government borrowed in order to finance budget deficit in the amount of 232,575.0 million baht, thus total cash balance after debt financing registered a surplus of 135,487.0 million baht. With the beginning balance of 293,835.0 million baht, the treasury account at the end of September 2010 closed at 429,322.0 million baht.

Public Debt at the end of August 2010 stood at 4,266,701.3 million baht, equivalent to 42.7 percent of GDP, slightly increased from 4,144,260.8 million baht at the end of June 2010. The increase in public debt was due to an increase in direct government borrowing in domestic market in order to finance budget deficit, debt management and the SP2 project.

Fiscal condition remained sound with public debt per GDP at 42.7 percent.

Public Debt

Fiscal Year	2009		2010				
	Q3/09	Q4/09	Q1/10	Q2/10	Q3/10	Q4/10	12M
Public Debt Outstanding (million baht)	3,831,573.9	4,002,037.5	3,967,481.6	4,124,711.7	4,144,260.8	4,266,701.3	264,663.9
Compared with prior year (%)	13.5	17.4	14.3	11.2	8.2	6.6	-55.4
Percent to GDP (%)	42.4	44.2	43.9	42.4	42.6	42.7	2.6
Direct Government Debt (million baht)	2,466,914.8	2,586,513.2	2,588,126.5	2,762,302.7	2,806,656.3	2,933,501.3	346,988.1
Compared with prior year (%)	14.3	19.6	21.2	16.8	13.8	13.42	-18.2
Percent to GDP (%)	25.1	28.3	28.5	29.5	28.9	29.33	3.5

remark: As of 30 August 2010
Source: Public Debt Management Office (PDMO)

Budget Expenditure Framework in Fiscal Year 2011

Budget expenditure framework in fiscal year 2011 (October 2010 – September 2011) amounts to 2,070,000 million baht, comprises of: (i) current expenditures of 1,662,604 million Baht or 80.3 per cent of the total budget; (ii) capital expenditures of 344,495 million baht or 16.6 percent of the total budget; (iii) principal repayment of 32,554 million baht or 1.6 percent of the total budget and; (iv) compensation to the treasury account of 30,346 million baht or 1.5 percent of total budget. The government also targeted the disbursement rate for total budget at 93.0 percent, given the capital disbursement rate of 72.0 percent and SP2 disbursement rate at 100.0 percent.

- **Financial Condition:**

Policy rate was in upward trend following better economic prospect and upward inflationary pressure.

Policy rate slightly increased. During the third quarter, the Monetary Policy Committee (MPC) decided to raise the policy interest rate by 50 basis points, from 1.25 percent per annum as of June 2010 to 1.75 percent per annum as of September 2010. The decision was made in tandem with strong recovery of Thai economy, while inflationary pressure is expected to rise in the near future. Similarly, policy rate in many Asian countries were revised upward following strong economic recovery. In October 2010, China raised the policy interest rates by 25 basis points from 5.31 to 5.56 percent per annum. Likewise, Taiwan adjusted the policy interest rate from 1.275 to 1.50 percent per annum in order to curve down inflationary pressures following economic recovery. On the other hand, Bank of Japan decided to lower the policy interest rate from 0.1 percent per annum to a range of between 0 and 0.1 percent per annum in order to stimulate domestic economy, while lowering the appetite for yen.

Deposit rate and lending rate remained stable.

Commercial banks' interest rate remained low. At the end of the third quarter, an average of 12-month deposit rate and MLR lending rate remains stable at 1.12 and 6.00 percent per annum. The real deposit and lending rate slightly increased to -2.18 and 3.00 percent per annum, respectively.

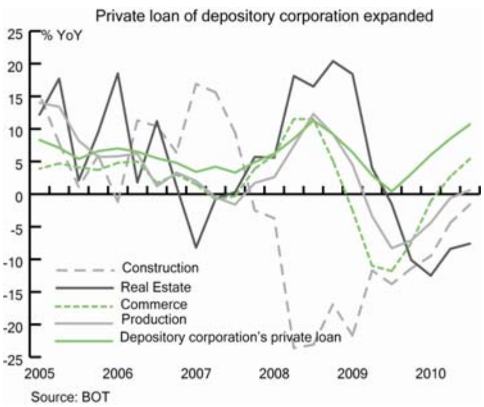
World Policy Rate Changes unit: percent

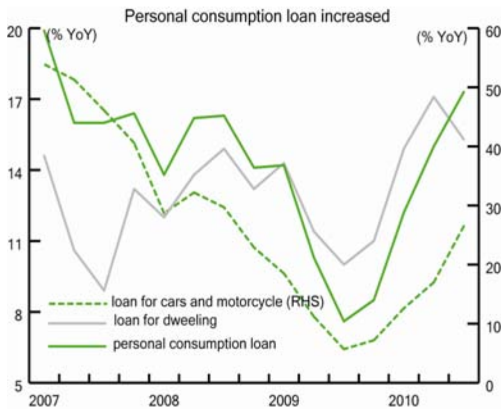
Country	2009				2010				Policy rate
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Oct	At the end of Oct 2010
Thai	-1.25	-0.25					0.50		1.75
USA									0.25
Europe	-1.00	-0.25							1.00
China								0.25	5.56
Japan								-(0-0.1)	0 - 0.10
Taiwan	-0.75					0.125		0.125	1.50
Malaysia	-1.25				0.25	0.25	0.25		2.75
Australia	-1.00	-0.25		0.75	0.25	0.50			4.50
India	-1.00	-0.25			0.25	0.25	0.25		6.00
South Korea	-1.00						0.25		2.25

source : collected by NESDB

Depository corporation's' deposits accelerated. Similarly, private loan expanded at a faster pace owing to expansion of loan for purchase or hire purchase of cars and motorcycles.

Depository corporations' deposits including bill of exchange (B/E) expanded by 9.7 percent, compared to an expansion of 6.4 percent in the preceding quarter. In particular, Bill of exchange (B/E) accelerated by 36.0 percent, partly due to growing appetite for higher yield investment in the current low interest rate environment and low base effect form last year. Similarly, **private loan (excluding accrued interest) of depository corporations** expanded at a faster pace, from 8.5 percent at the end of previous quarter to 10.7 percent at the end of the current quarter, owing to the household loan expansion, especially in loan for purchase or hire purchase of cars and motorcycles. On the other hand, loan for dwelling grew at a slower pace following termination of real estate stimulus package measure at the end of June 2010. Corporate loan improved in all sectors in tandem with economic recovery. In addition, number of credit cards and credit outstanding increased in line with recovery in credit card spending. Meanwhile, NPLs[2] to outstanding loan continually curved down to 2.3 percent from 2.4 percent in the previous quarter, mainly due to principle repayment, debt restructuring and selling of debt.





Increase in excess liquidity due to government & bank of Thailand bonds, and Net R/P Position.

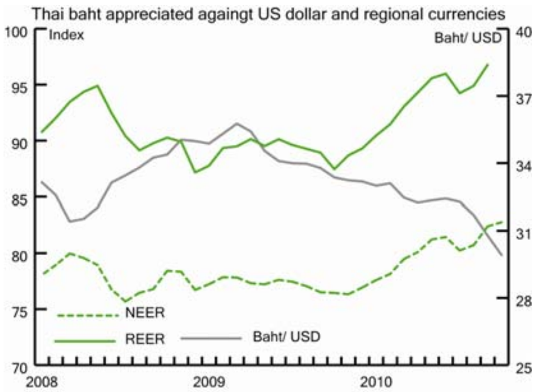
Commercial banks' credit (excluding repurchase position (R/P)) to deposits (including B/E) ratio slightly declined form 91.0 percent at the end of the second quarter to 90.5 percent at the end of the current quarter, following acceleration in deposits. Consequently, excess liquidity in commercial banking system rose from 1.18 trillion baht to 1.26 trillion baht, especially in government & BOT bond and net R/P position.

Thai baht continued to appreciate following increased in capital inflow.

Thai baht continued to appreciate against US dollar. An average exchange rate in the third quarter of 2010 was 31.562 baht per US dollar, appreciated by 2.40 percent from the previous quarter and 6.93 percent from the same period of last year. Thai baht continued to appreciate against US dollar due to the inflow of investment capital in response to Asian economic recovery, under the market expectation of the Federal Reserves' new round of quantitative easing measure (QE2).

Furthermore, Thai baht appreciated at a slower pace against other regional currencies including that of export-competing-countries. Nominal effective exchange rate (NEER) and real effective exchange rate (REER) increased by 0.23 and 0.01 percent.

[2] NPLs in financial institutions (excluding BIF and credit fanciers)



In October 2010, Thai baht rapidly appreciated to an average of 29.921 baht per US dollar, an average exchange rate over period of 1st – 19th November was at 29.736 baht per US dollar.

The net flow increased rapidly in both banking and non-banking sector.

Capital and financial account recorded a net inflow[3]. In the third quarter, capital and financial account recorded a net inflow of 8.1 billion US dollars, increased rapidly from 1.4 billion US dollars in the previous quarter. The net inflow was mainly contributed by inflow from banking sector, accelerated from 2.1 billion US dollars to 3.1 billion US dollars, and non-bank sector, shifted from outflow of 1.9 billion US dollars to an inflow of 1.3 billion US dollars

Current account continued surplus from the previous quarter.

Current account in the third quarter registered a surplus of 2,047 million US dollars which was equivalent to 101,291 million bath, a continued surplus from 1,698 million US dollars in the previous quarter. This was attributed by trade balance surplus of 3,303 million US dollars and income and transfer deficit of 1,256 million US dollars.

Capital and Financial Account

(Million US dollars)	2009(p)	H1-09(p)	H2-09(p)	H1-10 (e)	Q1-10 (e)	Q2-10 (e)	Q3-10 (e)
Monetary authorities	1,481	-206	1,687	575	591	-16	867
Government	590	-198	787	1,141	751	390	1,941
Bank	7,846	-1,190	9,036	3,524	1,428	2,095	3,069
Non-bank	-9,808	-3,644	-6,164	-941	960	-1,902	1,255
FDI	4,495	2,066	2,429	2,249	1,536	713	1,868
Portfolio Investment	-7,700	-3,377	-4,323	1,108	1,372	-264	688
Foreign	837	n.a.	575	-729	190	-919	940
Local	-8,537	n.a.	-4,898	1,837	1,182	655	-252
State Enterprises	-4,004	-1,703	-2,301	863	31	832	997
Total Capital and Financial Account	**-3,896**	**-6,941**	**3,045**	**5,162**	**3,762**	**1,400**	**8,128**

Source: BOT

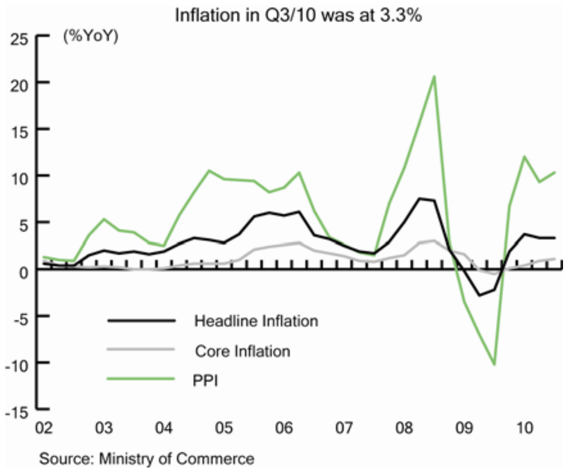
International reserve at the end of October stood at 171.1 billion US dollars.

International reserve at the end of October 2010 stood at 171.1 billion US dollars (excluding Net Forward Position of 12.6 billion US dollars), which was equivalent to 4.6 times of short-term foreign debt and 3.7 months of imports.

Headline inflation in the third quarter remained constant with the previous quarter at 3.3 percent.

Headline Inflation: the average headline inflation in the third quarter of 2010 remained constant from the previous quarter at 3.3 percent as a result of an increase in price of fresh products (particularly in fruits, vegetables and consumer goods). Such rising in price was mainly caused by the destruction of agricultural area due to heavy rain which resulted in lower crop yield and the end of harvest seasons for some seasonal fruits. Food and beverage price index escalated by 7.0 percent. While non-food and beverage price index increased slightly by 1.1 percent, mainly due to higher water supply charge due to the termination of water supply subsidy from the government since April, 1. In this quarter, core inflation rate was at 1.1 percent, increased from 0.9 percent in the previous quarter. This reflects in the upward trend of most commodities' prices excluding fresh food and energy[4].

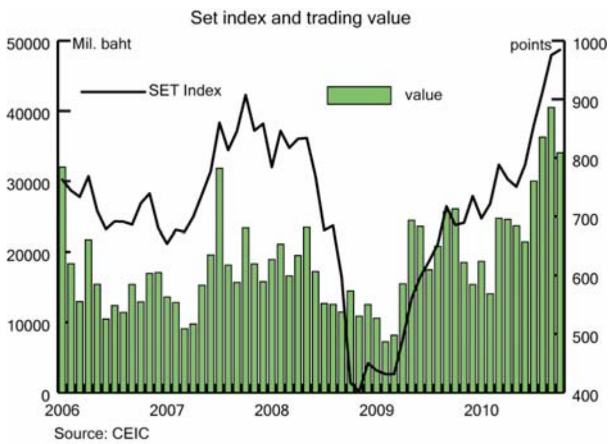
3 Capital and financial account figure at the end of 3rd quarter is preliminary data from Bank of Thailand, which is subjected to change.
4 In October 2010, headline inflation was at 2.8 percent, while core inflation was at 1.1 percent.



Producer price index in the third quarter of 2010 rose by 10.3 percent, increased from 9.3 percent in the second quarter. This phenomenon was mainly attributed to higher prices of agricultural products as a result of lower crop production due to heavy rain and flooding while domestic and external demands remained high. This has put tremendous amount of pressure toward the production cost especially non-food raw materials and the price of consumer products especially fresh food. This may result in low profit margin of production and ultimately lead to an increase in price in 2011[5]

SET index and trading volume significantly increased throughout the quarter. In the third quarter, SET index closed at 975.3 points, dramatically increased from 797.3 points (equivalent to 22.3 percent) in the previous quarter. Such remarkable improvement was contributed by: (i) better-than-expected regional economic outlook compared to the major industry economies; (ii) anticipated extra investment return from upward trend in regional currencies; (iii) lessen domestic political uncertainty. As a result, foreign investor recorded a net buy of 60.0 billion baht, compared to a net sell of 59.9 billion baht in the previous quarter. Average daily trading value accelerated from 21.4 billion baht to 35.6 billion baht. During October through 18th November 2010, SET index continually improved due to foreign capital inflow. Nevertheless, an increase in global economic volatility has caused SET index to close at 1,004.7 points slightly dropped from peak at 1,049.8 points (8th November). Average trading value was 38.4 billion baht and foreign investors' net buy value of 9.2 billion baht.

SET index and trading volume increased throughout the quarter admit to regional economic expansion and foreign capital inflow.



5 In October 2010, producer price index increased by 6.3 percent..

Bond market sentiment continually improved and foreign investors' net buy value increased significantly. Daily average outright trading in the third quarter registered at 70.9 billion baht, increased from 64.8 billion baht in the second quarter. Government bond index increased from the previous quarter from tremendous improvement in demand, as witness in substantial amount of foreign investors net buy position (recorded at 131.2 billion baht). However, an increase of government bond index was limited by increasing supply, both government and Bank of Thailand bonds, under the interest rate hike environment. In October 2010, foreign investors continued to record a net buy. Daily average outright trading increased, while government bond index slightly dropped following a halt in policy rate hike and implementation of government's measures on easing baht appreciation.

Daily average outright trading and government bond index improved. Foreign investors continued to record a net buy.

Set and Bond market performance

(Billion Baht)	2008	2009					2010			
	Y	Q1	Q2	Q3	Q4	Y	Q1	Q2	Q3	Oct.
Stock Market										
SET Index (Point)	450.0	431.5	597.5	717.1	734.5	734.5	788.0	797.3	975.3	984.5
Daily average trading	15.9	8.6	21.2	21.3	20.0	17.8	19.1	21.4	35.6	34.1
Net Trading of Foreigner Investors	-162.3	-5.6	25.8	35.0	-17.0	38.2	42.5	-59.9	60.0	15.5
Bond Market										
Gross Price Index (Point)	113.2	107.4	105.6	103.7	103.5	103.5	104.5	108.0	108.9	108.3
Daily Average Outright Trading Value	70.3	68.1	66.8	53.6	51.6	59.9	61.4	64.8	70.9	82.9
Net Trading of Foreign Investors	68.4	-1.9	11.7	19.1	-1.9	26.9	23.8	26.6	131.2	55.2

Source: SET and ThaiBMA

Corporate fundraising slightly decreased from the same period of last year. Private fundraising totaled at 245.9 billion baht, slightly decreased from 254.2 billion baht in the third quarter of 2009. Debt securities issuance has dominated the private fundraising market, with a total of 224.2 billion baht. The majority of debt securities issuance came from financial intermediation, real estate and production sectors. Meanwhile, fundraising through equity securities remained high at 21.7 billion baht, compared with 2009 total equity fundraising of 29.5 billion baht. Most of equity securities were issued by Transport, storage and Transportation and production sectors. This reflected higher and broader investors' confidence compared to the previous quarter, as most of the equity fundraising were concentrated in real estate sector.

Corporate fundraising remained high due to higher investors' confidence.

Inssuance of Private securities in Primary Market

(Billion Baht)	2008			2009					2010		
	H1	H2	Y	Q1	Q2	Q3	Q4	Y	Q1	Q2	Q3
Equity Securities	35.4	9.6	45.0	11.0	3.4	8.0	10.4	**29.5**	19.1	**36.8**	**21.7**
Debt Securities	696.8	570.4	1,267.2	191.9	290.7	246.2	257.1	984.8	217.9	275.5	224.2
Short-term	549.2	432.2	981.4	109.8	134.9	157.2	170.0	571.8	144.1	164.8	178.0
Long-term	147.6	138.2	285.8	82.1	155.8	89.1	87.1	414.1	73.8	110.7	46.2
Total	732.2	580.0	1,312.2	202.9	294.1	254.2	267.5	1,014.3	237.0	312.3	245.9

Source: Bank of Thailand

2. Oil price and oil price trend 2010 and 2011

❒ Oil price in Q3/2010

World crude oil prices slowed down due to high base effect from 2009. In the third quarter of 2010, an average world crude oil price (Dubai, Brent, Oman, and WTI) stood at 75.03 US dollars per barrel, increased by 9.8 percent) compared to the same period of last year of which the average price stood at 68.32 US dollars per barrel. The decelerated expansion was due to high base effect resulting from high demand and world economic recovery since the third quarter of 2009.

World crude oil prices slowed down due to last year high base effect.

Crude Oil Price

US$/Barrel		OMAN	DUBAI	BRENT	WTI	Avg.
2008	Year	94.37	93.65	97.93	99.69	96.41
2009	Q1	44.60	44.27	45.43	43.07	44.34
	Q2	59.01	58.95	59.67	59.64	59.32
	Q3	68.19	67.88	68.85	68.36	68.32
	Q4	75.42	75.29	75.58	76.22	75.63
	Year	61.80	61.60	62.38	61.82	61.90
2010	Q1	76.08	75.69	77.28	78.72	76.95
	Q2	78.15	77.90	79.44	78.07	78.39
	Q3	73.84	73.83	76.74	75.70	75.03
	1-18 Nov.	84.20	84.00	86.66	84.90	84.94
	18 Nov.	81.95	81.75	85.05	81.85	82.65

Source: Reuter

❒ Oil price trend in 2010 and 2011

An average Dubai crude oil price in 2010 was expected to stand at 77 US dollars per barrel, higher than 61.60 US dollars per barrel in 2009. The average oil price in the first 10 months of 2010 was 76.23 dollars per barrel and stood at 81.75 US dollars per barrel on 18th of November 2010. Several institutions adjusted their WTI crude oil forecast. The Energy Information Administration (EIA) of USA expected that the average oil price of WTI would drop to 79 US dollars per barrel in 2010. Whereas Nomura of Japan revised its forecast upward to 85 US dollars per barrel in 2010 and expected the oil price in 2011 and 2012 to be 95 and 110 US dollars per barrel. The primary factor for higher oil price is the recovery of global economy. In addition, many institutions expected that the oil price would remain high due to higher demand during the winter session.

The average WTI oil price in 2011 would be higher than its price in 2010. The EIA expected that the average oil price in 2011 should stand at 85 US dollars per barrel while other institutions expected that the oil price in 2011 would be in the range of 80-100 US dollar per barrel, higher than the average price of 77 US dollars per barrel in 2010.

NESDB forecasts that the average Dubai oil price in 2011 would be in a range of 80 - 90 US dollars per barrel, higher than the average price in 2010. Key supporting factor was upward consumption in tandem with global oil demand.

An average Dubai crude oil price in 2010 was expected to stand at 77 US dollars per barrel. In 2011, an average Dubai crude oil price was expected to be in a range of 80 - 90 US dollars per barrel

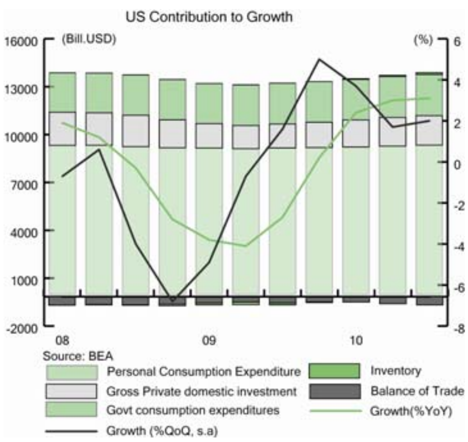
3. World Economic Performance in Q3/2010 and Outlook in 2010 and 2011

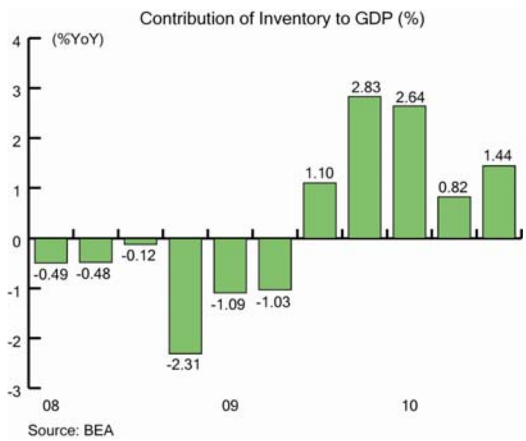
The world economy in the third quarter has shown a sign of slowdown, except the US and Japan which experienced higher growth rates compared to the previous quarter.

The world economy showed a sign of slowdown in the third quarter of 2010, except the US and Japanese economies that experienced positive improvement. Despite the expansion in domestic consumption, inventory restocking, government expenditure and export, the US economy continues to be in recovery process from the twin deficits problem. Japanese economy picked up though the strong yen and prolonged deflation remain its major problems. Chinese economy continued to grow but at a slower pace, due to the decline in government investment and measures that aimed to control speculation in real estate market and to limit risks that may have caused economic bubbles. The summary of economic performance in major economies are illustrated as follows:

Despite the expansion in domestic consumption, inventory restocking, government expenditure and export, the US economy is still recovering from the twin deficits problem.

- **US Economy** expanded by 3.1 percent on a year-on-year basis, slightly increased from the 3.0 percent growth in the second quarter. On a seasonally adjusted quarter-on-quarter basis, the economy expanded by 2.0 percent, up from 1.7 percent growth in the previous quarter. The increase in GDP in the third quarter primarily reflected positive contributions from private consumption, inventory restocking, nonresidential fixed investment, federal government spending, and exports that were partly offset by a negative contribution from real estate sector and increased imports. Imports and exports grew by 20.4 and 17.0 percent (YoY) respectively, a decrease compared to the previous quarter. This led to a trade deficit of 133.1 billion US dollars. In the first nine months of this year, the US trade deficit reached 379.1 billion dollars, higher than the same period of last year's deficit of 270.2 billion dollars. Imports also increased consistently as the US trade deficits with China, Japan and the Eurozone widened. Trade deficit with China reached 81.78 billion dollars, a rise from 67.74 billion dollars in the previous quarter. Industrial production increased by 5.4 percent (YoY) in the third quarter, a decrease which was in line with the PMI of 55.4. However, the PMI in October increased to 56.9 as a result of a rise in new orders. Consumer price index (CPI) rose slightly to 0.3 percent in this quarter. However, the CPI in September adjusted to a lower rate of 0.1 percent which could be a sign of deflation. The Federal Reserve (Fed) continued to implement quantitative easing (QE) measures to stimulate the economy, while keeping the policy rate at a range of 0.0 percent to 0.25 percent. In this quarter[6], 14.8 million people were unemployed, presenting an unemployment rate of 9.6 percent, down from 9.7 percent in the preceding quarter. Nonetheless, the number of unemployed persons rose to 15.6 million in October while the total nonfarm payroll employment increased by 151,000 in some sectors such as retail sector as a result of the upcoming Christmas season.





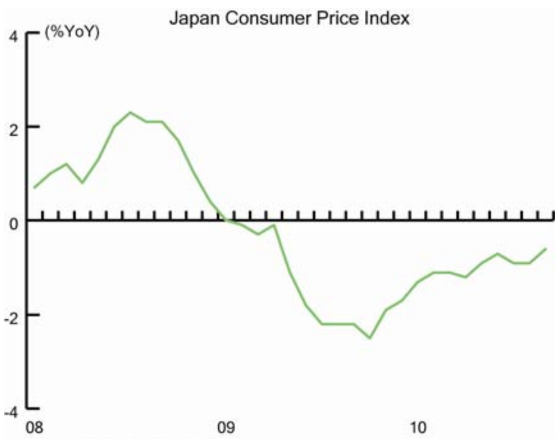
[6] On the 3rd of November, the Fed announced the second phase of Quantitative Easing program (QE2) which will involve the purchase of 600 billion US dollars in long-term Treasuries by the end of Q2/2011 at a pace of about 75 billion dollars each month. This program aims to boost the US economy and avert deflation by increasing US dollars into the system. However, this could lead to an excess liquidity in the global financial system.

- **Eurozone Economy** expanded at the same rate as the previous quarter by 1.9 percent on a year-on-year basis. On a seasonally adjusted quarter-on-quarter basis, the Eurozone economy grew by 0.4 percent, down from 1.0 percent growth in the second quarter. Most countries in Eurozone expanded at a slower pace particularly the Netherlands and Romania which experienced economic slowdown. On the contrary, Greece, Hungary, and Portugal developed positively. United Kingdom and Scandinavians such as Norway, Denmark and Sweden showed signs of recovery for the second consecutive quarters, reflected positive contributions from the continued expansion of domestic demand particularly in investment and inventory, including trade balance which continued to expand but at a slower pace thereby resulted in increased food and energy prices which ultimately lead to a high inflation rate of 1.7 percent. Greece experienced the highest inflation level among the Eurozone particularly in September 2010. The euro continued to depreciate throughout the third quarter against baht and yen. An average exchange rate in the third quarter of 2010 was 40.82 baht per euro (depreciated by 17.1 percent from Q4/2009 or 0.8 percent from the previous quarter). An average exchange rate of yen against euro stood at 110.67 (depreciated by 17.3 percent from Q4/2009 or 5.5 percent from the previous quarter). In contrast, an average exchange rate of yen against US dollar stood at 1.29 (appreciated by 1.5 percent from the previous quarter).

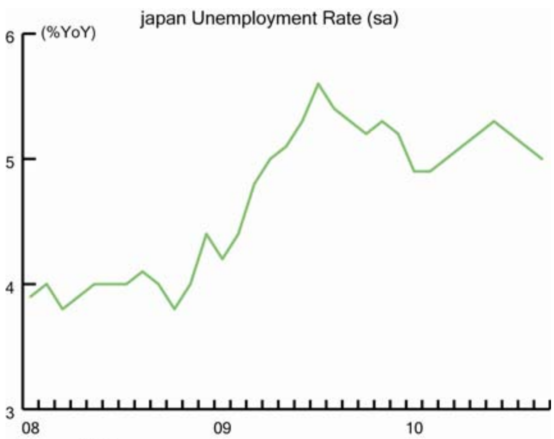
Most countries in Eurozone expanded at a slower pace due to fiscal consolidation policy that deterred the increase in domestic demand.

- **Japanese Economy** experienced a stronger-than-expected growth of 4.4 percent on a year-on -year basis, up from 2.7 percent in the second quarter owing to the low base effect in the same quarter last year. On a seasonally adjusted quarter-on-quarter basis, the Japanese economy expanded by 0.9 percent, increased from a 0.4 percent growth in the previous quarter as a result of increased domestic demand. Private consumption, especially in sales of fuel efficient cars expanded by 1.1 percent as purchase rose significantly before the government stimulus program to promote environmentally-friendly products came to an end in early September. Nevertheless, Japanese Economy began to show signs of slowing down in this quarter. The PMI fell to 50.8 from 54.1 in the previous quarter. Besides, PMI of September fell below 50 and stood at 49.5 for the first time in 15 consecutive months. Exports grew by 14.4 percent in September, down from 15.8 percent in August as a consequence of lower external demand and the yen appreciation. Deflation has remained Japan's major economic problem as seen by the consumer price index which contracted by 0.6 percent in September. On the 5th of October, the Bank of Japan decided to adjust the policy rate to 0.0-0.1 percent in order to stimulate the economy and will maintain this level until CPI exceeds 1.0 percent. In this quarter, unemployment rate stood at 5.0 percent, decreased from 5.3 percent in the previous quarter.

Japanese economy experienced a stronger -than-expected growth in this quarter but deflation and strong yen remain problematic.



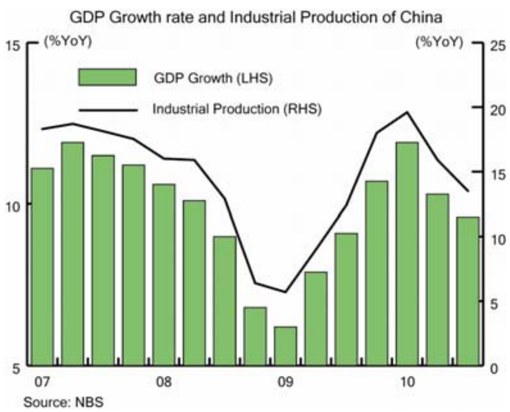
Source: Cabinet Office of Japan

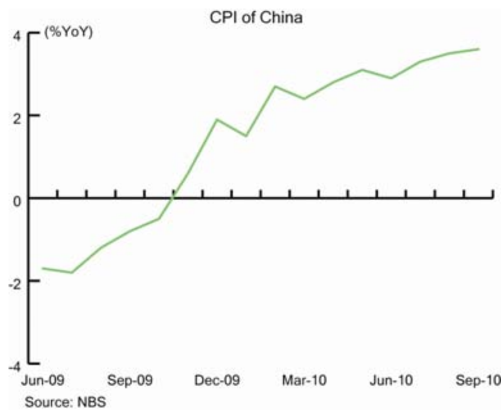


Source: CEIC

- **Chinese Economy** expanded at the slower pace of 9.6 percent on a year-on-year basis, compared to 10.3 percent in the previous quarter. This was a result of the deceleration of industrial sector which expanded by 13.5 percent as compared to 15.9 percent in the previous quarter, as coincided with the declined manufacturing PMI from 53.9 in the previous quarter to 52.2 in the third quarter, signaling the slowdown of Chinese economy. This was partly owing to the implementing measures to control property speculation aimed at reducing risk on economic bubble, and the decline in public investment. In the first nine months of 2010, retail sales expanded by 18.3 percent, totaling to 11,102 billion yuan. Exports and imports continued to expand but at a decelerated rate corresponding to reduced external demand. In this quarter, exports and imports expanded by 32.2 and 27.4 percent, down from 40.9 and 44.1 percent in the previous quarter respectively. This was partly due to yuan depreciation after the Chinese government adjusted the exchange rate policy on 19 June 2010 and that affected China's price competitiveness. Inflation rate reached 3.5 percent in this quarter, exceeded its target of 3.0 percent due to soaring food prices by flood and drought. People's Bank of China raised the policy rate by 25 basis points on 19 October 2010. One-year deposit rate increased from 2.25 percent to 2.50 percent and the one-year lending rate increased from 5.31 percent to 5.56 percent. This tightened monetary policy which aimed to curb inflation rate within its targeted range became effective on 20 October 2010 and was the first rate hike since December 2007

Chinese economy continued to expand but at a slower pace, while inflation has become a concerning problem.





- **New Industrial Economies (NIEs) and India** generally, had a slow growth. Singapore, Taiwan and South Korea grew at a slower rate of 10.6, 9.8 and 4.5 percent, down from a 19.5, 12.9 and 7.2 percent respectively. Hong Kong, on the contrary, grew by 6.8 percent, higher than the expansion in the previous quarter, primarily reflected positive contributions private consumption and public expenditure which expanded by 5.7 and 3.4 percent respectively. Indian economy is likely to grow at a slower pace in the third quarter as shown by a slowdown in industrial production in September to 4.4 percent from a robust 15.2 percent (YoY) in July and 5.6 percent in August. Inflation (WPI) in India slowed to 8.6 percent in September, down from a surge of 11.0[7] percent in April. In the next quarter, South Korean economy is expected to grow at a slower pace due to lower industrial production and exports affected by the strong won against the US dollar plus the decline in global demand. The Bank of Korea (BOK) has tried to curb currency fluctuation through implementing measures to control foreign exchange and the size of foreign currency derivatives, in order to prevent financial risks that might occur if there is a sudden change in the current capital flows between countries.

NIEs economies experienced economic growth but the expansion was at a slower pace.

[7] The Bank of India raised the repurchase rate by a quarter-point to 6.25 percent and the reverse repurchase rate by a similar margin to 6.25 percent in early November.

- **ASEAN economies** tend to grow at a slower pace. Malaysia, Indonesia, and Vietnam appear to grow at a sluggish pace due to the slowdown of global economy in addition to the withdrawal of stimulus measures. Indonesian economy grew by 5.8 percent, decreased from 6.2 percent in the previous quarter, resulted from a fall in domestic consumption, private investment and public spending. Vietnamese economy grew by 7.2 percent, increased from 6.4 percent in the previous quarter, as a result of export expansion by 36.9 percent. Most ASEAN countries have experienced a continual currency appreciation in the first three quarters of this year.

ASEAN economies generally grew at a slower pace compared to the second quarter. Currency appreciation is the common problem in the region.

- **Global Economic Outlook in 2010 and 2011**

The global economy is expected to grow by 4.3 and 3.8 percent in 2010 and 2011 respectively. The main factors contributing to the continued global recovery includes policy adjustment to adopt stimulus measures, contractionary fiscal policy to solve public debt in Europe and the adjustment of trade balance. Ultimately, a balanced trade will be achieved since the countries with net trade balance surplus will tend to have a reduced surplus size while those with net trade deficit will tend to have a reduced deficit size. Domestic demand and inventory stock also show a sign of improvement. In 2010, the US, Eurozone, Japanese and Chinese economies are expected to grow by 2.7, 1.6, 2.7 and 9.6 percent respectively. In addition, the new industrial economies (NIEs) such as Singapore, South Korea, Taiwan and Hong Kong are expected to grow by 13.0, 6.1, 7.9 and 5.5 percent accordingly, while Indian economy is expected to expand by 8.3 percent. The ASEAN economies including Malaysia, Indonesia and Vietnam are expected to grow by 7.1, 6.0 and 6.0 percent respectively.

The global economy is expected to grow by 4.3 and 3.8 percent in 2010 and 2011 respectively.

In 2011, the global economy tends to slow down and it is expected that the US, Eurozone, Japanese and Chinese economies will expand by 2.2, 1.4, 1.3 and 9.0 percent respectively. The NIEs including Singapore, South Korea, Taiwan and Hong Kong are expected to grow by 4.8, 4.0, 4.2 and 4.5 percent accordingly, while Indian economy is expected to grow by 8.3 percent. In addition, The ASEAN economies including Malaysia, Indonesia and Vietnam are expected to grow by 4.9, 6.1 and 6.4 percent respectively.

GDP Growth of Major Economies

Countries (%YoY)	2008	2009					2010				2011*
	Year	Q1	Q2	Q3	Q4	Year	Q1	Q2	Q3	Year*	Year*
World*	2.3	-2.3	-1.7	-0.4	1.9	-0.6	4.8	4.8	-	4.3	3.8
USA	0.0	-3.8	-4.1	-2.7	0.2	-2.5	2.4	3.0	3.1	2.7	2.2
Eurozone	0.4	-5.2	-4.9	-4.0	-2.0	-4.0	0.8	1.9	1.9	1.6	1.4
UK	-0.1	-5.5	-6.0	-5.4	-3.0	-5.0	-0.3	1.7	2.8	1.5	2.1
Japan	-1.2	-9.0	-5.8	-5.1	-0.9	-5.2	5.0	2.7	4.4	2.7	1.3
China	9.0	6.5	7.4	8.1	9.1	9.1	11.9	10.3	9.6	9.6	9.0
India	6.7	5.8	6.0	8.6	6.5	6.7	8.6	8.8	-	8.3	8.3
South Korea	2.3	-4.3	-2.2	1.0	6.0	0.2	8.1	7.2	4.5	6.1	4.0
Taiwan	0.7	-9.1	-6.9	-1.0	9.1	-1.9	13.7	12.9	9.8	7.9	4.2
Hong Kong	2.2	-7.7	-3.8	-2.4	2.5	-2.8	8.0	6.5	6.8	5.5	4.5
Singapore	1.8	-8.9	-1.7	1.8	3.8	-1.3	16.9	19.5	10.6	13.0	4.8
Malaysia	4.7	-6.2	-3.9	-1.2	4.4	-1.7	10.1	8.9	-	7.1	4.9
Philippines	3.7	0.5	1.2	0.2	2.1	1.1	7.3	7.9	-	6.2	4.6
Vietnam	6.2	3.1	4.5	6.0	6.9	5.3	5.8	6.4	7.2	6.0	6.4
Indonesia	6.0	4.5	4.1	4.2	5.4	4.5	5.7	6.2	5.8	6.0	6.1

*NESDB estimation

It is expected to see a slowdown in the Eurozone starting from the fourth quarter of this year due to lower consumption, fiscal consolidation policy[8], credit restriction and global economic slowdown. Unemployment tends to be higher than the current 10.0 percent. Consumption may expand within a range of 0-0.2 percent, reducing the risk of high inflation. In 2010, the level of public debt as a percentage of GDP in Eurozone is expected to reach 72-85 percent.

Developing countries especially China and India will be the key contributors to the global economic recovery. Considering the current account, it can be seen that ASEAN5 economies retain highest current account surplus (3.2 percent of GDP), following by other developing countries (1.54 percent) and Eurozone economies (0.17 percent). The US and the PIIGs economies are still facing the problem of persistent current account deficit. Japan, on the other hand, has had a current account surplus of 3.05 percent of GDP, while the problem of high public debt as a percentage of GDP remains prominent. The IMF forecasted that Japan's and the US's in 2010 will reach 225.8 and 92.7 percent respectively, higher that the 72.6 percent of the Eurozone. Moreover, the US's debt-to-GDP ratio tends to grow at increasing rate, while it is a less worrying problem in developing countries. Therefore, it can be seen that developing countries will play a crucial role in driving the global economy in the next quarter.

Low interest rates in the US and Europe will deter institutional investors from investing in these regions since they will diversify their investment to other developing countries where they yield higher returns. Thus, the capital control measures are needed in those developing countries. In the short run, the developing countries need to stimulate their domestic demand and transfer their savings into investment in non-tradable goods and services in order to reduce potential inflation problem. In addition, the rise in agricultural prices as a result of floods in Southeast Asia has raised the inflation concern and thus could lead to the adjustment of interest rates in the region.

[8] Fiscal consolidation policy involves a freeze on public spending, a reduction in social welfare payments, cuts of 5-15 percent in civil servant pay, tax rises, reduced government investment and tax depreciation policy in Germany that is due to expire at the end of this year.

4. Thailand Economic Outlook in 2010:

Thai economy in the past three quarters grew by 9.3 percent (YoY) and is likely to continue to expand in the fourth quarter of 2010. Key factors responsible for this expansion were the continual recovery of global economy and domestic demand. Nevertheless, Thailand at present is experiencing severe flooding which will undoubtedly affect the economy in the fourth quarter of 2010. Thai economy in the fourth quarter of 2010 is therefore expected to expand at decelerated rate.

❒ **Supporting Factors:**

(1) The world economy continued to expand at a satisfactory rate though it decelerated from the first half of 2010. In addition, economic recovery in major economies remains delicate, specifically Japan and EU. Regardless of the global economy, major trading partners of Thailand (ASEAN countries and new industrial economies (NIEs), and China) remain beneficial to Thai exports. Moreover, the increase in diversification of Thai export market would lessen the impact from economic deceleration of major countries.

(2) Investment continued to expand. This was due to the momentum of exports and domestic consumption. Together with the appreciation of Thai baht, these lead investors and entrepreneurs to readjust and accelerate their investment plan especially in the import of machinery and equipment.

(3) In the fourth quarter of 2010, number of tourists is expected to reach 4 million persons. As a consequence, industries related to tourism sectors such as hotels and restaurants, trade and transportation sectors are likely to benefit.

(4) Liquidity in the financial system remains at a satisfactory level. An excess liquidity of commercial banks in the third quarter stood at 1.26 trillion baht. Meanwhile, the improvements of capital and bond markets provided support for business financing. The special financial institutions (SFIs) still able to approve credits in order to support the expansion of grass root economy. In the first eight months of 2010, SFIs approved the total credits of 830,925 million baht, exceeding this year target of 777,220 million baht.

(5) The interest rate remains low. The real deposit interest rate in October and real loan rate stood at -1.68 percent and 3.2 percent respectively. From the fourth quarter of 2010 up to first half of 2011, the interest rate is expected to remain low. This will become a major force for private consumption and investment.

❒ **Risk Factors and Limitations**

(1) An appreciation of Thai baht lessens export competitiveness of some Thai commodities to countries which their currencies are weaker than Thailand such as China and Vietnam.

(2) The prices of major agricultural products tend to increase as a result of flood. This will lead to a higher inflation rate in the future.

(3) The fluctuation in oil prices: The injection of 600 billion US dollars of Quantitative Easing 2 (QE2) into the global economy has resulted in the depreciation of US dollars as well as a decrease in yields on Treasury bill. This has led investors to shift their investment position. Normally, investors would shift their investment position towards Euro currency and European bonds. However, since Euro zone economy situation at present remains fragile. This has ultimately pushed investors to invest in other currencies and commodities, especially oil. Together with promising signs of global economic recovery, this has led to a higher demand of crude oil and an increase in oil speculators. An average crude oil price in Q4/2010 is expected to be in the range of 80-85 US dollars per barrel.

(4) A momentum loss of consumption in durable goods such as electronics and automobiles: these commodities have been the key drivers of private consumption during the past three quarters. In the third quarter, these factors expanded by 31.7 percent. Consequently, private consumption increased by 5.1 percent but it is expected to grow at a slower pace during the fourth quarter. This is due to a high base effect from last year as well as a deceleration in consumption during the fourth quarter. Such slowdown in consumption was mainly from a high consumption after crisis period. Thus, the trend of consumption is likely to lose its momentum during the last quarter of 2010.

❒ Thai Economic Outlook for 2010

Thai economy in 2010 is projected to expand by 7.9 percent compared to the contraction of 2.3 percent in 2009. The headline inflation is expected to be 3.2 percent, increasing from –0.9 percent in 2009. Current account is projected to generate a surplus of 4.3 percent of GDP, a slowdown on surplus of 8.3 percent of GDP in 2009.

Thai economy in 2010 will expand by 7.9 percent with 3.2 percent of headline inflation and 4.3 percent of current account surplus to GDP .

In the press release on 23rd August 2010, Office of the National Economic and Social Development Board (NESDB) revised GDP projection upward to 7.0 – 7.5 percent with 3.0-3.5 percent headline inflation and a current account surplus of 4.9 percent.

In this release of 22nd November 2010, NESDB raised the GDP projection to 7.9 percent with 3.2 percent headline inflation and a current account surplus of 4.3 percent due to the following reasons:

(1) The world economy and trade volume tend to grow at a faster pace than previous forecast. In this projection, the global economy and trade volume in 2010 are projected to expand by 4.3 and 7.5 percent respectively, compared to the previous estimation of 3.9-4.3 and 7.5 percent respectively. However, an appreciation of Thai baht partly affected export sector. From the global economic recovery, the growth rate of exports remains at the same pace as the previous projection.

(2) High economic growth during the past three quarters and continued expansion of key economic indicators will support Thai economy in the last quarter of 2010. Even though a flood will reduce agricultural production in the fourth quarter, the economic growth is likely to be compensated by the expansion of service sector, particularly in tourism and manufacturing sectors.

(3) Household consumption tends to expand at a faster pace than in previous projection. Household consumption grew by 5.1 percent in the first nine months. Therefore, household consumption is expected to rise by 4.9 percent, revised upward from the previous projection of 4.1 percent.

(4) Total volume of imports is forecasted to grow by 25.5 percent, compared to an expansion of 24.9 percent in the previous forecast. An upward revision is due to a continued expansion in private consumption and investment that tend to increase considerably.

(5) Trade balance is forecasted to record a surplus of 13.3 billion US dollars. Together with a surplus of service account balance, the current account is expected to register a surplus of 13.6 billion US dollars or 4.3 percent of GDP, a downward revision from the previous projection due to an increase in projected value of imports.

5. Thai Economic Outlook for 2011

❒ **Supporting factors for Thai economic expansion**

(1) Thai economy in 2011 will continuously expand. The momentum of 2010 economic improvement, particularly the domestic demand will be an economic impetus and offset the deceleration of the external demand.

(2) The income of grass root consumers is expanded as a consequence of (i) increase of civil servants' salaries, minimum wages, and private officers' salaries; (ii) the tendency of the rise of farm income due to the pickup of major agricultural product prices – such as prices of rubber, cassava, and sugar cane – as well as the implementation of the farm income guarantee measure; (iii) the 21.8 percent expansion of 2011 fiscal budget from the prior year which will enlarge the government expenditure; and (iv) the low rate of unemployment The above factors will contribute to the continual growth of the domestic demand.

(3) The interest rates tend to be at the low level, specifically during the first half of 2011 due to (i) the US, EU, and Japan have been implementing the loosen monetary policies in order to accelerate the economic revival. Thus, the interest rate policy adjustment in these countries is predicted to occur in the forth quarter of 2011; and (ii) the developing countries are worrying about their currencies' appreciation so that they avoid raising their interest rates to prevent the capital inflows which could in turn cause the appreciation of their currencies.

❒ **Risk Factors and Limitations**

(1) The world economic revival is still fragile specifically the recovery of the EU countries and Japan which mainly rely on the external demand. Nevertheless, the external demand of these countries tends to be affected by the exchange rate fluctuation. Thus, the engines of economic growth of these countries in 2011 tend to slowdown, compared to 2010. Together with the limited monetary and fiscal policies, the EU and Japanese economies are likely to expand at a low level. Under the above conditions, the US and Chinese economic growths would decelerate since the EU countries and Japan are their major trading partners.

(2) The political condition remains unstable despite the calmness during the latter half of 2010 affected the continuation of fiscal policy implementation and the government management. As a consequence, the investors' confidence would be affected and lead to delay of their investment in Thailand.

(3) Agricultural production and farm income face a risk from (i) the weather fluctuation principally the deluge at the end of 2010 which would generate the continuous impact in the first quarter of 2011; and (ii) the baht appreciation against US dollar as well as Vietnamese dong which is the main competitor in rice exports.

(4) The capital flows from major economies to developing countries particularly Asian countries lead to the continual appreciation of currencies in this region as well as Thai baht, lowering the competitive advantage of their exports. Furthermore, the capital movement in order to speculate in capital and real estate markets could cause the rise of asset prices, especially in the real estate market which indicated by the increase of detached house price by 2.5 percent in the third quarter of 2010, the first improvement since the first quarter of 2007.

(5) The labor shortage in some industries is one of the key barriers to their expansion. Despite the higher orders during the economic recovery, the producers are unable to respond to consumers' demand, lowering the opportunity to expand their businesses.

(6) The inflationary pressure could occur if the agricultural product prices increase too quickly due to the supply shock which was caused by the natural disaster. The higher inflation rate may lead to the rise of interest rate; however, the increase in interest rate would generate

the risk of capital inflows which would lead to the baht appreciation. Hence, the policy implementation in order to address the problem of economic stability will be constrained.

❒ Key Assumptions for 2011 Projection

Key assumption for 2011 projection

(1) World economy and world trade volume are expected to grow by 3.6-4.0 and 6.5-7.5 respectively.

(2) Average Dubai crude oil price is expected to be 80-90 US Dollar per barrel.

(3) Export and Import prices are forecasted to increase to 5.5 and 5.3 percent. respectively

(4) Foreign tourism number is projected at 15.8 million persons.

(1) The world economy in 2011 is predicted to grow by 3.6 – 4.0 percent, down from 4.3 percent projection in 2010 due to the economic expansion in developing countries. Due to concerns over the impacts from the currency war generated by the implementation of monetary policy of major economies, the global economy in 2011 is expected to slow down. After the launch of the US quantitative easing 2 (QE2), currencies of many nations are under extreme pressure and thus are likely to appreciate. This will affect the economic recovery of export-oriented countries specifically EU and Japan which are currently at a fragile state. Together with the Chinese monetary policy to appreciate Yuan against US dollar but depreciate against EUR, this will place tremendous amount of pressure on exports as well as the overall economic conditions of EU. Thus, the recovery of EU and Japan is vital to maintain sustainable recovery of global economy in 2011. Besides, the global trade volume in 2011 is projected to pick up by 6.5 – 7.5 percent, down from 7.5 percent in 2010.

(2) The average price of Dubai crude oil in 2011 is expected to be within the range of 80 – 90 US dollars per barrel, increased from the forecasted 77 US dollars per barrel in 2010. Similarly, other organization predicted that WTI crude oil price in 2011 would be in the range of 76.6 – 100 US dollars per barrel. Key factors responsible for the increase in crude oil prices include: (i) higher demand for oil following global economic expansion particularly in Asian economies and; (ii) speculation during the improvement of the global economy and high liquidity in the money market. Although demand for crude oil in 2011 is on the rise, this demand can be satisfied by production of non-OPEC members. This led to low tension in crude oil market and thus crude oil price in 2011 is expected to expand at a relative pace.

(3) Export prices in US dollar are forecasted to grow by 5.5 percent, down from the predicted 8.7 percent in 2010 due to high base effect. Nevertheless, export prices continued to improve because: (i) increase in price of agricultural products in response to increased global demand as well as decline in supply from natural disaster; (ii) pickup of the domestic wage; and (iii) the increase in commodity prices after continual prices fixing policy of government during the economic contraction. Import price in US dollar is expected to expand by 5.3 percent, down from 8.0 percent in 2010 since the oil price which is the main factor of import price is projected to expand at a slower rate than in 2010. This trend can be seen from (i) crude oil price in 2011 tends to increase approximately by 8 US dollar per barrel from 77 US dollar per barrel in 2010 to 85 US dollar per barrel in 2011; and (ii) crude oil price in 2010 tends to increase approximately by 15 US dollar per barrel from 61.6 US dollar per barrel in 2009 to 77 US dollar per barrel in 2010.

(4) Number of foreign tourists in 2011 is predicted to be around 15.8 million persons, an improvement from the 2010 projection of 15.2 million persons.

- **Thai economic projection for 2011: Thai economy is forecasted to grow by 3.5-4.5 percent with 2.5-3.5 percent headline inflation and 3.3 percent current account surplus to GDP.**

The 2011 Thai economy is projected to grow at 3.5-4.5 percent with 2.5-3.5 percent of headline inflation and 3.3 percent of current account surplus to GDP.

- **Projected growth components in 2011**

(1) **Total consumption expenditure is forecasted to grow by 4.1 percent with the expansion in household consumption of 4.3 percent** decelerated from the 2010 expected figures of 5.0 and 4.9 percent respectively, partially, caused by a high base effect. However this resumption of household consumption will be supported by (i) an increase in public servant's income and minimum wage, (ii) the farmers' income guarantee scheme, and (iii) an increase in farmer income caused by higher crop price of which is driven by the increase in crop prices and demand, both for household consumption and usage in alternative-energy production, in the world market. Thus an increase in the household position in both agricultural and non-agricultural sectors, combined with a continually increase in consumers' confidence, are expected to drive the household consumption in 2011. **The public consumption expenditure is expected to expand by 2.7 percent.**

(2) **Total investment is projected to expand by 8 percent, decelerated from the projected 2010 growth of 9.7 percent.** Private investment is expected to grow by 9.8 percent, also decelerated from the last year expected figure of 13.9 percent. However, for the year 2011, private investment is expected to be a major driving factor for the Thai economy as it is expected that investment in the industrial sector will expand. In addition the investment environment also improved as the incidence in the Mab Ta Phut industrial zone is solved combined with an appreciation in Thai Baht and a continually low real interest rate. **Public investment is expected to expand by 2.5 percent**.

(3) **Export value of goods in US dollar terms is forecasted to grow by 11.7 percent, decelerated from the expected 2010 growth of 25.1 percent.** Both export volume and price are expected to decelerate due to a high base effect and a sluggish in world economic recovery. An appreciation in Thai Baht is also one of the important factors that will put a pressure on Thai export. It is also projected that the agricultural export volume will be reduced because the supply of agricultural product is damaged by the flood which occurred in late 2010. Under these conditions, it is expected that export volume and price will grow by 6.2 and 5.5 percent respectively. **Export of goods and services is also projected to expand by 6.0 percent, decelerated from the projected 2010 growth of 14.3 percent.**

(4) **Import value of goods in US dollar terms is forecasted to expand by 13.4 percent, decelerated from the forecasted 2010 growth of 33.5 percent.** This slowdown is expected to be experienced in both export volume and price which are projected to grow by 7.9 and 5.3 percent respectively, compared to the expected growth of 25.5 and 8.0 percent in 2010. However, it is expected that the expansion in import will be consistently supported by an increase in investment and private consumption as well as appreciation in Thai Baht. **Import volume of goods and services is likely to rise by 8.0 percent, decelerated from the projected 2010 growth of 20.9 percent.**

(5) **Trade balance is expected to register a surplus of 12.0 billion US dollars, declined from the expected 2010 surplus of 13.3 billion US dollars.** This decline in trade balance, while experiencing an increase in export value, is due to a higher increase in import value than an increase in export value. Once combined with a fact that the services account will reach only a small surplus, the current account is expected to register a surplus of about 12.0 billion US dollars or 3.3 percent of the GDP. This current account surplus is lower than the projected 2010 surplus of 13.6 million US dollars.

(6) Economic stability: current account surplus tends to decline along with a lower tension in inflation. The average headline inflation is expected to be 2.5-3.5 percent which is very close to the projected level in 2010 of 3.2 percent. It is also expected that the unemployment rate will stand at 1.3 percent.

6. Economic Management for 2011

A recovery in world economy and an improvement in domestic political situation, as well as strong economic fundamentals, cause Thai economy in 2010 to accelerate at a high and sustainable pace. In 2011, however, a lower world market demand, along with a high base effect, will cause the Thai economic expansion to be slower. In addition, fluctuation in capital flow, exchange rate, and crude oil price combined with a severe natural disaster also cause intricacy in economic policy management. Furthermore, the expansion in the tourism and investment sector is based on the stability of domestic political situation. Thus the key issues for the economic management in 2011 are:

(1) Assisting those who are affected by the deluge in the late 2010 by implementing the farm income compensation scheme and rebuilding public infrastructure. In addition, the water resource management plan for both agriculture and consumption should be prepared in order to prevent the flood and drought in the future.

(2) Managing and tackling the problem of rising commodities price which is caused by a higher agricultural product price induced by a decrease in supply of agricultural products affected by the flood, and a higher cost of production which is driven by an increase in minimum wage and also a higher demand for those particular commodities in the market.

(3) Encouraging the export sector to consistently use financial instruments to manage risk arising from the exchange rate fluctuation. It is also recommended that financial institutions should create varieties of those instruments which are easy to be used and have low operating costs. More importantly, for the SMEs who have limited access as well as limited abilities to use such instruments, government should provide basic supports and supervise them until they will be able to fully apply those risk hedging tools.

(4) Urgently helping those labors who are affected by the flood and solving the problem of labor shortage in the industrial sector in order to support an incoming expansion in private investment and foreign direct investment.

(5) Creating harmony and solidarity among Thai people through the implementation of reconciliation plan as well as restoring Thai images and confidences of foreign tourists and investors.

The impacts of Thai baht appreciation on the economy

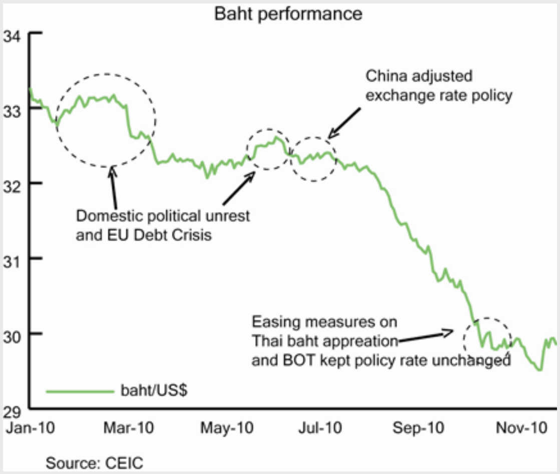
Thai baht movement during 1st of January to 19th of November 2010

An average exchange rate in the first 10 months of 2010 was at 32.01 baht per US dollar, appreciated by 7.17 percent from the same period of last year and 6.59 percent from an average exchange rate of 2009. Over the period of 1st – 19th November, Thai baht continued to appreciate to an average of 29.74 baht per US dollar. Furthermore, Thai baht appreciated against other regional currencies including that of export-competing-countries. Nominal effective exchange rate (NEER) in October increased to 80.76 from 76.93 in December 2009. The key supporting factors for baht appreciation are as follows:

(1) Strong economic growth in Thai and Regional economy.

(2) Increase in capital inflow both in trade and investment accounts, resulted in continual surplus of Capital and financial account since September 2008.

(3) Market expectation over policy rate normalization under the interest rate hike environment.



The impacts of Thai's baht appreciation on the economy

(1) **The results based on NESDB general equilibrium model.** By assuming that the baht (in nominal terms) appreciates by 10 percent (the actual appreciation was approximately 7.17 percent in the first ten months of this year), the impacts on the demand side are as follows:

%YoY	Private Consumption	Investment	Export	Import	Net export	Consumer price	Total
GDP	2.27	3.10	-2.42	2.03	-16.55	1.24	**-0.33**

(2) **The impacts on the economic structure.** In the long run, production sector may contract, and, in turn, affects household income and business revenue.

(3) **However, the negative impacts on Thai economy, as shown above, might be overestimated.** This is because (i) Thai Baht appreciates in line with other currencies and (ii) the negative effect on Thai export would be limited as the Baht appreciation will be monitored and managed so that its fluctuation will be at the similar level of other competitive currencies. Nevertheless, the appreciation in Thai currency will lower the cost of imported capital goods and also support an expansion in private consumption and investment.

Policy recommendation

Thai baht appreciation trend is expected to continue in 2011 due to (i) strong growth in Asian economy, (ii) major industrial economies still in fragile stage, (iii) new round of quantitative easing measures by US and Japan, and (iv) policy rate hike in China. In this respect, the recommendation policy for easing impact on Thai baht appreciation are as follows:

(1) **Increase capital outflow channel.** Encourage state enterprise agencies and private sector to increase their oversea investment, especially in export-competing-countries. On the other hand, regulatory agency should consider measure to curb down short term capital inflow to prevent currency speculation if necessary.

(2) Encouraging the export sector to consistently use financial instruments to manage risk arising from the exchange rate fluctuation. In addition, **increase access and understanding of financial hedging instruments to enhance competitiveness of SMEs**. Moreover, government should provide financial supports for affected entrepreneurs.

(3) **Hasten the repayment of foreign currency debts which are at present weak against Thai baht.** Moreover, government should promote domestic resource-based exports and encourage the import of machinery to enhance domestic productivity.

(4) **Promote domestic demand and use of Thai products** in order to counter the fall in global demand. In addition, government should promote research and development (R&D) in innovative and creative products to focus on improving product value rather than competing in price. Related organizations should provide full cooperation in production, R&D and marketing of these products.

Economic Projection 2010 and 2011

	Actual Data		Projection		
	2008	2009	2010		2011
			23 Aug. 10	22 Nov. 10	22 Nov. 10
GDP (at current prices: Bil. Bht)	9,080.5	9,041.6	10,000.9	10,072.3	10,777.3
GDP per capita (Bht per year)	135,528.8	135,144	148,162	149,634	159,435
GDP (at current prices: Bil. USD)	272.2	263.3	307.7	316.7	365.3
GDP per capita (USD per year)	4,062.2	3,936.0	4,558.8	4,705.5	5,404.6
GDP Growth (at constant prices, %)	2.5	-2.3	7.0-7.5	7.9	3.5 - 4.5
Investment (at constant prices, %)	1.2	-9.2	9.2	9.7	8.0
Private (at constant prices, %)	3.2	-13.1	12.1	13.9	9.8
Public (at constant prices, %)	-4.7	2.7	1.7	-1.3	2.5
Consumption (at constant prices, %)	2.9	0.1	4.0	5.0	4.1
Private (at constant prices, %)	2.9	-1.1	4.1	4.9	4.3
Public (at constant prices, %)	3.2	7.5	3.9	5.5	2.7
Export volume of goods & services (%)	5.1	-12.5	15.1	14.3	6.0
Export value of goods (Bil. USD)	175.2	150.7	189.7	188.8	211.0
Growth rate (%)	15.8	-13.9	25.7	25.1	11.7
Growth rate (Volume, %)	6.0	-13.6	17.2	16.4	6.2
Import volume of goods & services (%)	8.9	-21.5	20.6	20.9	8.0
Import value of goods (Bil. USD)	175.6	131.3	174.8	175.5	199.0
Growth rate (%)	26.5	-25.2	32.9	33.5	13.4
Growth rate (Volume, %)	8.9	-23.1	24.9	25.5	7.9
Trade balance (Bil. USD)	-0.4	19.4	14.9	13.3	12.0
Current account balance (Bil. USD) [1/]	2.2	21.9	15.1	13.6	12.0
Current account to GDP (%)	0.8	8.3	4.9	4.3	3.3
Inflation (%)					
CPI	5.4	-0.9	3.0-3.5	3.2	2.5 - 3.5
GDP Deflator	3.9	1.9	3.0-3.5	3.5	2.5 - 3.5

Source: Office of National Economic and Social Development Board, 22 November 2010

Note [1/] Reinvested earnings has been recorded as part of FDI in Financial account, and its contra entry recorded as income on equity in current account.